



Required Supplementary Information Other Than MD&A



STATE OF TEXAS

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 37,882,893	\$ 44,415,946	\$ 41,178,014	\$ (3,237,932)
Federal	31,386,237	37,456,285	35,279,800	(2,176,485)
Licenses, Fees and Permits	2,430,195	2,605,626	2,738,758	133,132
Interest and Other Investment Income	135,199	160,017	98,289	(61,728)
Land Income	13,560	20,436	47,035	26,599
Settlement of Claims	468,012	538,637	579,989	41,352
Sales of Goods and Services	1,429,232	3,430,395	1,803,069	(1,627,326)
Other	3,478,741	4,018,241	4,064,819	46,578
Total Revenues	<u>77,224,069</u>	<u>92,645,583</u>	<u>85,789,773</u>	<u>(6,855,810)</u>
EXPENDITURES				
General Government	3,700,241	2,648,482	2,427,610	220,872
Education	21,083,699	21,669,674	23,119,057	(1,449,383)
Employee Benefits	1,353,884	11,185	7,122	4,063
Teacher Retirement Benefits	1,765,353	1,765,353	1,675,063	90,290
Health and Human Services	34,729,989	39,949,224	44,736,765	(4,787,541)
Public Safety and Corrections	4,341,545	5,325,333	4,407,303	918,030
Transportation	145,368	148,504	33,524	114,980
Natural Resources and Recreation	1,541,737	1,935,352	1,826,275	109,077
Regulatory Services	238,309	310,940	301,514	9,426
Total Expenditures	<u>68,900,125</u>	<u>73,764,047</u>	<u>78,534,233</u>	<u>(4,770,186)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>8,323,944</u>	<u>18,881,536</u>	<u>7,255,540</u>	<u>(11,625,996)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,298,779	1,825,253	4,386,686	2,561,433
Transfer Out	(5,855,007)	(6,472,641)	(5,545,429)	927,212
Sale of Capital Assets	7,941	7,085	12,905	5,820
Insurance Recoveries	1,918	516	5,257	4,741
Available Beginning Balances	(483,165)	2,312,656	2,443,249	130,593
Total Other Financing Sources (Uses)	<u>(5,029,534)</u>	<u>(2,327,131)</u>	<u>1,302,668</u>	<u>3,629,799</u>
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 3,294,410</u>	<u>\$ 16,554,405</u>	<u>\$ 8,558,208</u>	<u>\$ (7,996,197)</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 42,534	\$ 42,526	\$ 2,411,587	\$ 2,369,061
Federal	3,413,677	4,016,047	2,844,178	(1,171,869)
Licenses, Fees and Permits	1,298,927	1,519,534	1,634,649	115,115
Interest and Other Investment Income	42,899	10,170	22,964	12,794
Land Income	5,668	8,066	15,637	7,571
Settlement of Claims	1,000	2,915	14,135	11,220
Sales of Goods and Services	209,288	177,562	64,248	(113,314)
Other	3,745	277,126	1,486	(275,640)
Total Revenues	<u>5,017,738</u>	<u>6,053,946</u>	<u>7,008,884</u>	<u>954,938</u>
EXPENDITURES				
General Government	18,387	21,613	27,045	(5,432)
Employee Benefits	179,336			
Public Safety and Corrections	571,458	719,656	726,808	(7,152)
Transportation	6,336,261	7,138,862	6,305,657	833,205
Regulatory Services	4,229	4,229	3,065	1,164
Total Expenditures	<u>7,109,671</u>	<u>7,884,360</u>	<u>7,062,575</u>	<u>821,785</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(2,091,933)</u>	<u>(1,830,414)</u>	<u>(53,691)</u>	<u>1,776,723</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,920,046	1,991,600	171,397	(1,820,203)
Transfer Out			(410,097)	(410,097)
Sale of Capital Assets	4,621	5,612	4,318	(1,294)
Insurance Recoveries	12,846	11,012	283	(10,729)
Available Beginning Balances	2,566,090	2,656,638	3,383,303	726,665
Total Other Financing Sources (Uses)	<u>4,503,603</u>	<u>4,664,862</u>	<u>3,149,204</u>	<u>(1,515,658)</u>
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,411,670</u>	<u>\$ 2,834,448</u>	<u>\$ 3,095,513</u>	<u>\$ 261,065</u>

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented in the table below.

	General Fund	State Highway Fund
Reconciliation of Budgetary Basis to GAAP Basis		
August 31, 2013 (Amounts in Thousands)		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 8,558,208	\$ 3,095,513
Basis of Accounting Differences:		
Receivables and Deferred Revenues	42,957	(13,465)
Payables	263,181	(381,018)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(2,443,249)	(3,383,303)
Other Revenues Not Budgeted	191,236	
Other Expenditures Not Budgeted	(219,782)	(107,169)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	822	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	<u>\$ 6,393,373</u>	<u>\$ (789,442)</u>

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund – The \$1.4 billion variance in education was due to various prior year educational programs in that year's budget primarily being spent in this fiscal year. The \$4.8 billion variance in health and human services

is the result of increased expenditures made from the excess of federal revenues received over estimates by agencies in this particular function.

Major special revenue fund – state highway fund – The \$5.4 million variance in general government and the \$7.2 million variance in public safety and corrections is the result of expenditures made from available beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session

of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2013, \$400,000 was transferred to the Texas Veteran's Commission to provide additional funds for staffing needs in processing veteran's claims for disability benefits. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system, 5 percent of the non-interstate system (national, state and farm-to-market roadways) and 20 percent of the Central Texas Turnpike System toll roads. For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component and each component are weighted according to importance

to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMAP assessments. The results of the condition assessments are presented in the table below.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2013	80.3%	77.4%	85.1%
2012	82.0%	77.7%	86.2%
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost (Amounts in Thousands)					
	2013	2012	2011	2010	2009
INTERSTATE HIGHWAYS					
Estimate	\$ 277,770	\$ 191,442	\$ 604,837	\$ 568,456	\$ 534,263
Actual	\$ 303,959	\$ 346,326	\$ 361,825	\$ 333,253	\$ 326,305
OTHER HIGHWAYS					
Estimate	\$ 2,628,535	\$ 2,224,822	\$ 3,282,946	\$ 3,005,713	\$ 2,687,869
Actual	\$ 2,067,091	\$ 1,594,432	\$ 1,517,604	\$ 1,423,734	\$ 1,519,110
CENTRAL TEXAS TURNPIKE SYSTEM					
Estimate	\$ 13,988	\$ 10,050	\$ 11,578	\$ 11,371	\$ 9,179
Actual	\$ 13,109	\$ 10,628	\$ 11,439	\$ 6,972	\$ 7,262

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT intends to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) are considered as they may have a major impact on needed funds and the condition of Texas roads.

Other Condition Assessments

A separate annual inspection is performed on the Central Texas Turnpike System in accordance with Section 707 of the Indenture Trust. Those inspections are performed by the general engineering consultant (GEC) of the Central Texas Turnpike System. The fiscal 2013 inspection noted that overall the Central Texas Turnpike System was in excellent condition, achieving an overall score of 95 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus, timing and methodology that may contribute to a difference in scores. The evaluation covers all 65 miles of the system rather than a 20 percent random sample.

Schedules of Funding Progress

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – Pension*

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Employees Retirement System of Texas (ERS)						
08/31/13	\$ 24,667,639	\$ 30,987,987	\$ 6,320,348	79.6%	\$ 5,959,473	106.1%
08/31/12	24,272,514	29,377,069	5,104,555	82.6%	5,676,509	89.9%
08/31/11	23,997,445	28,398,213	4,400,768	84.5%	5,795,185	75.9%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/13	\$ 843,017	\$ 1,149,712	\$ 306,695	73.3%	\$ 1,627,699	18.8%
08/31/12	832,451	1,015,668	183,217	82.0%	1,498,979	12.2%
08/31/11	830,522	960,953	130,431	86.4%	1,475,432	8.8%
Judicial Retirement System Plan One (JRS1)						
08/31/13	\$ 0	\$ 252,943	\$ 252,943	0.0%	\$ 1,904	13,284.8%
08/31/12	0	232,922	232,922	0.0%	2,200	10,587.4%
08/31/11	0	245,777	245,777	0.0%	2,200	11,171.7%
Judicial Retirement System Plan Two (JRS2)						
08/31/13	\$ 318,026	\$ 359,044	\$ 41,018	88.6%	\$ 77,854	52.7%
08/31/12	300,433	315,199	14,766	95.3%	68,778	21.5%
08/31/11	283,936	300,163	16,227	94.6%	69,655	23.3%
Teacher Retirement System of Texas (TRS)						
08/31/13	\$ 121,729,819	\$ 150,666,094	\$ 28,936,275	80.8%	\$ 36,504,576	79.3%
08/31/12	118,326,042	144,427,226	26,101,184	81.9%	35,444,569	73.6%
08/31/11	115,252,828	139,315,090	24,062,262	82.7%	36,797,011	65.4%

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – OPEB*						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/12	\$ 0	\$ 6,939,197	\$ 6,939,197	0.0%	\$ 5,674,298	122.3%
12/31/10	0	5,956,798	5,956,798	0.0%	5,309,413	112.2%
12/31/09	0	5,676,868	5,676,868	0.0%	5,026,491	112.9%
A&M Care Health and Life Plan (A&M Plan)						
09/01/12	\$ 0	\$ 1,924,980	\$ 1,924,980	0.0%	\$ 1,149,300	167.5%
09/01/10	0	1,854,690	1,854,690	0.0%	1,313,538	141.2%
09/01/09	0	1,864,320	1,864,320	0.0%	1,315,292	141.7%

* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied significantly from the previous year to the current year due to actuarial methods used, and changes in actuarial assumptions or benefit provisions. Significant factors are summarized below and the effects of those factors are incorporated into the 2013 valuations.

Pension Plans

Amounts reported for the ERS, LECOS, and JRS2 plans varied significantly due to the amount of interest on the unfunded liability included in the actuarial accrued liability, significantly different amount of smoothed asset losses from 2008-2010 recognized in fiscal 2013 compared with prior year, and increased contribution rates from the prior valuation.

Actuarial methods and assumptions remained the same except for the retirement rates for the TRS Plan. There were changes to the retirement eligibility for certain members of the pension plan and the assumptions were modified for these employee groups.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012.

The following methods and assumptions were modified since the prior valuation of the UT Plan:

- The period of coverage assumption for dependent children and the tobacco usage assumption have been updated to reflect statutory changes and recent plan experience.
- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience since the prior valuation. The Assumed Expenses include provision for the Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee.

-
- The Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

There were changes in assumptions that account for the lower than expected actuarial accrued liability for the A&M Plan since the prior valuation. These changes include a combination of the following factors:

- Factors that decrease the liability include a smaller active population, revision in the post Medicare trend assumptions, and lower than expected claims/contributions.

- Factors that increase the liability include the addition of an excise tax due to the Patient Protection and Affordable Care Act, improved mortality assumptions, and a slightly greater retiree population.

